

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION

(A Blended Component Unit of
the County of Cortland, New York)

BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2021 and 2020

CORTLAND, NEW YORK

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Cortland, New York)

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Richard McNeilly CPA

Certified Public Accountant

124 W Franklin Street
Horseheads, New York 14845

INDEPENDENT AUDITOR'S REPORT

April 22, 2022

To the Board of Directors of the
Cortland Tobacco Asset Securitization Corporation:

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and major fund of the Cortland Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of the County of Cortland, New York, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Corporation, as of December 31, 2021 and 2020, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2022 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.



Richard McNeilly CPA

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
For the Years Ended December 31, 2021 and 2020

Our discussion and analysis of the Cortland Tobacco Securitization Corporation's (the Corporation) financial performance provides an overview of the Corporation's financial activities for the years ended December 31, 2021 and 2020. This document should be read in conjunction with the Corporation's financial statements. The financial statements present only the information for the years ended December 31, 2021 and 2020.

FINANCIAL HIGHLIGHTS

As discussed further in the notes to the financial statements, the Corporation was formed to acquire from the County of Cortland, New York all future right, title, and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) with respect to tobacco related litigation among various states and participating manufacturers. The Corporation is a component unit of Cortland County, New York and, accordingly, is included in the County's financial statements as a blended component unit. The Corporation is classified as a special-purpose government under GASB Statement No. 14 and consists of one governmental fund. The fund and government-wide financial statements are presented together and include a reconciliation of the individual line items between the two statement types in a separate column.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and notes to those statements. The statement of net assets and the statement of activities provide information about the activities of the Corporation as a whole and present a longer-term view of the Corporation's finances. Fund financial statements tell how the governmental activity's services were financed in the short-term as well as what remains for future spending.

REPORTING THE CORPORATION AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The statement of net assets and the statement of activities report information about the Corporation as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Corporation's net position and changes in them. You can think of the Corporation's net position the difference between assets and liabilities - as one way to measure the Corporation's financial health, or financial position. Over time, increases or decreases in the Corporation's net position are one indicator of whether its financial health is improving or deteriorating. In the statement of net position and statement of activities, the Corporation's only activities relate to governmental activities.

Below is a condensed version of the government-wide financial statements as of and for the year ended December 31:

	2021	2020
Assets	\$ 1,765,895	\$ 1,670,593
Liabilities	12,682,684	12,647,273
Net Position	(10,916,789)	(10,976,680)
Revenues	887,741	764,343
Expenses	827,850	819,723
Change in Net Position	59,891	(55,380)

The Corporation's assets increased by \$95,302. The Corporation's liabilities increased by \$35,411. Net position increased by \$59,891.

Under the Master Settlement Agreement, the tobacco companies are required to make annual payments to the Corporation. During 2021, approximately \$835,000 in tobacco revenues were received and \$714,000 was received in 2020. In 2021, approximately \$828,000 in expenses were incurred and \$820,000 was incurred in 2020.

During 2021, no new bonds were issued and no distribution was made to the County. However, during 2021 interest expense of approximately \$473,000 was accreted on the Series 2005 bonds, compared to \$444,000 in 2019.

No residual payments have been made to the County since 2003 due to the trapping events that occurred. Under a trapping event, those monies that would have been paid out to the County are now required to fund a trapping reserve as required by the Corporation's indenture. In addition, as a result of the issuance of the 2005 Series Bonds, the County relinquished the right to use these monies for anything other than Corporation debt retirement. The trapping event that was in effect at year-end 2008 has been satisfied and will be further discussed below as will the ongoing trapping event.

The recognition of the bonds payable liability in 2001 and 2005 has created a deficit in the Corporation's net assets. The deficit is expected to be satisfied over time as the tobacco settlement proceeds are received and the bond liabilities are paid.

FUND FINANCIAL STATEMENTS

A governmental entity can have various types of funds such as governmental and proprietary. The Corporation only has one fund, which is a governmental fund.

Governmental funds focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the corporation's general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Corporation's programs.

Below is a condensed version of the fund financial statement as of and for the years ended December 31,:

	Governmental Activities	
	2021	2020
Assets	\$ 1,765,895	\$1,670,593
Liabilities/Deferred Inflow	784,010	713,912
Fund Balance	981,885	956,681
Revenues	817,643	757,276
Expenditures	792,439	733,737
Excess(Def.) of Revenues over Expenditures	25,204	23,539

The most significant variances in comparing years were tobacco revenues of \$764,400 in 2021 versus \$706,800 in 2020 and debt service payments of \$747,000 in 2021 versus \$ 690,000 in 2020.

The debt service fund has two distinct fund balances: reserved for debt service and unreserved-undesignated. Unreserved-undesignated fund balance is generated from general operations and is not restricted in use. Fund balance reserved for debt service results from monies set aside for future payment of the bond principal and interest.

Unlike the government-wide statements, in the fund financial statements, the bond payable is not recognized as a liability as it is long-term in nature. Because of this, there is not the issue of large fund balance deficit under this methodology that is present in the government-wide presentation.

Long-Term Debt Activity

The Corporation issued debt, which will be repaid by its purchases from the County of the future right, title and interest in the Tobacco Settlement Revenues. Serial Bonds principal payments are due annually and interest semi-annually. At December 31, 2021, the Corporation had \$12,658,119 in bonds outstanding. There was a decrease from the prior year as a result of payments of \$440,000 on the 2001 issue and \$-0- on the 2005 issue. There was also interest accretion of \$472,722 on the 2005 issue.

Analysis of Overall Financial Position

Under the government-wide methodology, the Corporation showed a decrease to its net position. This decrease results from the tobacco settlement proceeds and interest income providing less than enough revenue to meet the Corporation's current expense demands. Specifically, the government-wide financial statements show a increase to the Corporation's net position of \$59,891.

Budget

Governmental Accounting Standards Board Statement No. 34 requires an analysis of the original budget and final budget and between the final budget and actual results. Management only prepares a budget for its operating expenses and no changes are made to it. Because the budget is not a complete budget, comparison

to current operations could be misleading. As a result, it has not been presented in this report.

Other Facts

In accordance with Section 6.4(d)(6) of the Indenture and Sections 4.1(iv)(F) and (G), and to the extent contained in the "Calculations for the Tobacco Litigation Master Settlement Agreement" report, as of the Next Distribution Date, three Trapping Events have occurred. One is still occurring. According to the MSA report, the amount shown as relevant shipments for the year 2010 was less than the shipment amount specified, and therefore, a consumption Decline Trapping Event has occurred and is continuing.

Contacting the Corporation's Financial Management

This financial report is designated to provide to the readers of these financial statements an overview of the Corporation's finances and to show the Corporation's accountability for money it received. If you have any questions about this report or need additional information, contact the Corporation's President at 60 Central Avenue, Cortland, New York 13045.

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION
 (A Blended Component Unit of the County of Cortland, New York)
 STATEMENTS OF NET POSTION
DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 169,594	\$ 144,619
Tobacco settlement revenues receivable	784,010	713,912
Prepaid expenses	4,106	3,983
Deposits held by trustee	<u>808,185</u>	<u>808,079</u>
TOTAL ASSETS	<u>\$1,765,895</u>	<u>\$1,670,593</u>
LIABILITIES		
Accounts payable	\$ ---	\$ ---
Accrued interest	24,565	26,627
BONDS PAYABLE, net of bond discount	<u>12,658,119</u>	<u>12,620,646</u>
TOTAL LIABILITIES	<u>12,682,684</u>	<u>12,647,273</u>
NET POSITION		
Restricted for Debt Service	808,185	808,079
Unrestricted	<u>(11,724,974)</u>	<u>(11,784,759)</u>
NET POSITION	<u>\$ (10,916,789)</u>	<u>\$ (10,976,680)</u>

The accompanying notes are an integral part of these statements.

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended component Unit of the County of Cortland, New York)
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
EXPENSES:		
General Government-		
Professional fees	\$ 12,000	\$ 11,200
Fiscal fees	18,464	18,464
Administrative costs	14,819	14,416
Interest, amortization and fees	<u>782,567</u>	<u>775,643</u>
Total Expenses	827,850	819,723
PROGRAM REVENUE:		
Tobacco settlement revenues	834,512	713,912
Net Program Revenues	6,662	(105,811)
GENERAL REVENUES-Investment Income	<u>53,229</u>	<u>50,431</u>
CHANGE IN NET POSITION	59,891	(55,380)
NET POSITION, Beginning of Year	<u>(10,976,680)</u>	<u>(10,921,300)</u>
NET POSITION. End of Year	<u>\$ (10,916,789)</u>	<u>\$ (10,976,680)</u>

The accompanying notes are an integral part of these statements.

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Cortland, New York)
GOVERNMENTAL FUND BALANCE SHEET AND RECONCILIATION
TO STATEMENTS OF NET POSITION-DEBT SERVICE FUND
DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 169,594	\$ 144,619
Accounts receivable	784,010	713,912
Prepaid expenses	4,106	3,983
Deposits held by trustee	<u>808,185</u>	<u>808,079</u>
TOTAL ASSETS	<u>\$ 1,765,895</u>	<u>\$ 1,670,593</u>
LIABILITIES		
Accounts payables	\$ ---	---
DEFERRED INFLOW OF RESOURCES		
Tobacco settlement revenue	784,010	713,912
FUND BALANCE		
Restricted for Debt Service	808,185	808,079
Unassigned	<u>173,700</u>	<u>148,602</u>
TOTAL FUND BALANCE	<u>981,885</u>	<u>956,681</u>
TOTAL DEFERRED INFLOWS AND FUND BALANCE	<u>\$ 1,765,895</u>	<u>\$ 1,670,593</u>
Amounts reported for governmental activities In the statements of net position are different because:		
Total fund balance	\$ 981,885	\$ 956,681
Tobacco settlement revenues were not received in the Current period and therefore, are reported as revenues at the fund level	784,010	713,912
Bonds payable and accrued interest are not due and payable in the current period and therefore, are not reported at the fund level	<u>(12,682,684)</u>	<u>(12,647,273)</u>
Total Net Position	<u>\$ (10,916,789)</u>	<u>\$ (10,976,680)</u>

The accompanying notes are an integral part of these statements.

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Cortland, New York)
STATEMENTS OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE AND RECONCILIATION TO STATEMENTS OF
ACTIVITIES-DEBT SERVICE FUND
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
REVENUES:		
Tobacco settlement revenues	\$ 764,414	\$ 706,845
Interest	<u>53,229</u>	<u>50,431</u>
TOTAL REVENUES	817,643	757,276
EXPENDITURES:		
Professional fees	12,000	11,200
Fiscal fees	18,464	18,464
Administrative costs	14,819	14,416
Debt service-principal	440,000	360,000
Debt service-interest	<u>307,156</u>	<u>329,657</u>
TOTAL EXPENDITURES	792,439	733,737
CHANGE IN FUND BALANCE	25,204	23,539
FUND BALANCE - beginning of year	<u>956,681</u>	<u>933,142</u>
FUND BALANCE - End of Year	<u>\$ 981,885</u>	<u>\$ 956,681</u>

Amounts reported for governmental activities in
the statements of activities are different because:

Change in fund balance	\$ 25,204	\$ 23,539
Tobacco settlement proceeds have not been received in time and have not been reported as revenue in the governmental	70,098	7,067
The net effect of bond repayments, accretion, interest expense and amortization of bond discount are activities of the governmental fund but not reported in the statement of activities	<u>(35,411)</u>	<u>(85,986)</u>
Change in Net Position	<u>\$ 59,891</u>	<u>\$ (55,380)</u>

The accompanying notes are an integral part of these statements.

1. ORGANIZATION

Cortland Tobacco Asset Securitization Corporation (the Corporation) is a special purpose, bankruptcy remote local development corporation organized under the Not-For-Profit Corporation Law of the State of New York (the State). The Corporation was established in July 2001. The Corporation is an instrumentality of, but separate and apart from the County of Cortland, New York (the County). The Corporation will have not less than three nor more than five directors, consisting of Ex-Officio Directors during the tenure of their respective offices in the County, and Appointed Directors who will serve 1-year terms. Although legally separate from the County, the Corporation is a component unit of the County and, accordingly, is included in the County's basic financial statements as a blended component unit.

In 2001, pursuant to a Purchase and Sale Agreement with the County, the County sold to the Corporation all of its future rights, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) and the Decree and Final Judgment (the Decree). The MSA resolved cigarette smoking related litigation between the settling states and the Participating Manufacturers (PMs), released the PMs from past and present smoking related claims, and provided for a continuing release from future smoking related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The Decree, which was entered into by the Supreme Court of the State, allocated to the County a share of the TSRs under the MSA. The future rights, title and interest of the County's share were sold to the Corporation.

The Corporation's purchase of the County's future rights, title and interest in the TSRs was financed by the original Series 2001 Bond issuance. A Residual Certificate exists which represents the entitlement to receive all amounts required to be distributed after payment of debt service, operating expenses and certain other costs of the Corporation as set forth in the indenture. Payments on the Residual Certificate from TSR collections are subordinate to payments on the bonds and payment of certain other costs specified in the indenture. Excess TSRs not required by the Corporation to pay various expenses, debt service or required reserves with respect to the bonds are transferred to the Cortland TASC Residual Trust (the Trust), as owner of the Residual Certificate. The County is the beneficial owner of the Trust and thus the funds received by the Trust will ultimately transfer to the County.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Corporation's financial statements are prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB). The Corporation's government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Corporation's fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

The major governmental fund is the Debt Service Fund. The Debt Service Fund accounts for the resources accumulated and payments made for operations and principal debt service on long-term general obligation debt.

Net Position

Generally accepted accounting principles require that resources be classified for accounting purposes into applicable net position categories.

Unrestricted net position is the residual net position that is not restricted, but which may be internally designated by the Board of Directors.

Net position is reported as restricted when constraints placed on its use are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted net position of the Corporation is based on externally imposed conditions and include amounts restricted for debt service and bond issuance costs.

The Corporation has adopted a practice of utilizing its restricted net position when available, prior to unrestricted net position.

Fund Balance

GASB requires more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable - These are amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - These are amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - These are amounts that can be used only for specific purposes determined by a formal action of the Board of Directors prior to year-end. The Board of Directors is the highest level of decision-making authority for the Corporation. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Directors.

I Assigned - These are amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Board of Directors makes a determination of the assigned amounts of fund balance.

I Unassigned - These are all other spendable amounts.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Corporation considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Directors has provided otherwise in its commitment or assignment actions.

Cash

Cash for the Corporation consists of demand and non-demand deposits.

Bond Discount

The Corporation recognizes discounts fully in the year of issuance for the governmental fund statements. These costs are amortized over the term of the related bonds for the government-wide financial statements as additional interest expense. The Corporation recognizes all interest paid as interest expenditures on the modified accrual basis for the governmental fund statements and all interest incurred as expenses on the full accrual basis for the government-wide financial statements.

Accounts Receivable

The Corporation records a receivable for TSRs and does not accrue interest on unpaid amounts. The Corporation has not recorded an allowance for doubtful accounts related to the TSRs and does not anticipate future write-offs.

Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, the Balance Sheet and Statement of Net Position will sometimes report a separate section for deferred outflows/inflows of resources. The separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then.

Income Taxes

The Corporation is a not-for-profit corporation and is exempt from income taxes as an organization qualified under Section 501(c)(3) of the Internal Revenue Code. The Corporation has also been classified by the Internal Revenue Service as an entity that is not a private foundation. The Corporation is also exempt from Federal reporting requirements under Internal Revenue Service Revenue Procedure 95-48, 1995-2 C.B. 418 as a governmental unit or affiliate of a governmental unit described in the procedure.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. DEPOSITS AND INVESTMENTS

Investment and Deposit Policy

The Corporation follows an investment and deposit policy as outlined in the bond indenture, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; provide sufficient liquidity of invested funds in order to meet obligations as they become due; and attainment of a market rate of return. Oversight of investment activity is the responsibility of the Treasurer of the Corporation.

The Corporation categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Corporation did not have any investments that are measured using Level 2 or Level 3 inputs.

Fair value measurements of the Corporation's investments at December 31, 2021 comprised of us treasury bills valued at \$779,743 and money market funds valued at \$28,442 based on quoted market prices (Level 1 inputs).

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The Corporation has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Corporation's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. The Corporation's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

- Obligations of the United States of America;
- Obligations guaranteed by the United States of America where payment of principal and interest are guaranteed by the United States of America;
- Obligations of the State of New York;
- Special time deposit accounts;
- Certificates of Deposit;
- Obligations of public authorities, public housing authorities, urban renewal agencies, and industrial development agencies where the general State statutes governing such entities or whose specific enabling legislation authorizes such investments;
- Obligations issued pursuant to New York State Local Finance Law Section 24.00 and 25.00 (with approval of the New York State Comptroller) by any municipality, school district or district corporation other than the Corporation; and
- Eligible investments, as defined in the indenture between the Corporation and Manufacturers and Traders Trust Company, as trustee, as amended from time to time.

Custodial Credit Risk - Deposits

Custodial credit risk - deposits is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the Corporation's investment and deposit policy, all deposits of the Corporation including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIA) shall be secured by a pledge of securities with an aggregate value equal to the aggregate amount of deposits. The Corporation does not have a collateral agreement in place as required by its investment policy but would restrict the securities to the following eligible items:

- Obligations issued, or fully insured or guaranteed as to the payment of principal and interest, by the United States of America, an agency thereof or a United States government sponsored corporation;
- Obligations issued or fully guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank;
- I Obligations partially insured or guaranteed by any agency of the United States of America at a proportion of the market value of the obligation that represents the amount of insurance or guaranty;
- Obligations issued or fully insured or guaranteed by the State of New York, obligations issued by a municipal corporation, a school district or district corporation of such State or obligations of any public benefit corporation which under a specific State statute may be accepted as security for deposit of public moneys;
- Obligations issued by states (other than the State of New York) of the United States rated in one of the three highest rating categories by at least one Nationally Recognized Statistical Rating Organization (NRSRO);
- Obligations of Puerto Rico rated in one of the three highest rating categories by at least one NRSRO;
- Obligations of counties, cities and other governmental entities of a state other than the State of New York having the power to levy taxes that are backed by the full faith and credit of such governmental entity and rated in one of the three highest categories by at least one NRSRO;
- Obligations of domestic corporations rated in one of the two highest rating categories by at least one NRSRO;
- Any mortgage related securities, as defined in the Securities Exchange Act of 1934, as amended, which may be purchased by banks under the limitations established by bank regulatory agencies;
- I Commercial paper and bankers' acceptances issued by a bank, other than the Corporation's bank, rated in the highest short-term category by at least one NRSRO and having maturities of no longer than 60 days from the date they are pledged; and
- I Zero coupon obligations of the United States of America marketed as "treasury strips".

As of December 31, 2021 and 2020, the carrying amount of the Corporation's cash was \$169,594 and \$144,619 respectively, which were fully insured under the FDIC.

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION
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4. DEPOSITS HELD WITH TRUSTEE

Funds held by trustee refers to cash held by a third party to satisfy the Corporation's debt service requirements. The funds held by trustee are not subject to the Corporation's Investment and Deposit Policy or collateralization requirements. As of December 31, 2021 and 2020, the amounts held with the trustee were \$808,185 and \$808,079, respectively.

The Corporation had the following reserve funds as of December 31:

	2021	2020
Liquidity reserve	\$ 780,740	\$ 776,833
Debt service reserve	23,872	27,650
Bond trapping reserve	3,561	3,561
Collection Account	12	35
Total	<u>\$ 808,185</u>	<u>\$ 808,079</u>

These amounts are restricted by law for debt service.

Total funds held by trustee by type as of December 31, are as follows:

	2021	2020
US Treasurer Bills/Commercial Paper	\$ 779,743	\$ 775,958
Money Market Funds	28,442	32,121
Total	<u>\$ 808,185</u>	<u>\$ 808,079</u>

5. BONDS PAYABLE

The Corporation issued \$10,640,000 of Series 2001 Tobacco Asset-Backed Bonds in August 2001 and \$2,827,986 in Series 2005 Trust V Tobacco Asset-Backed Bonds in November 2005. All Series 2001 and 2005 Bonds are secured by a perfected security interest in, and pledge of, the Trust Estate, as defined in the Indenture, which includes, among other things, the TSRs and all investment earnings on amounts on deposit in the accounts established under the Indenture (collectively, the Collections). Among the accounts so established are the Liquidity Reserve Account and the Debt Service Account. The Corporation retains TSRs in an amount sufficient to service its debt and pay its operating expenses.

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The Series 2001 and 2005 Bonds are payable solely from and secured solely by the future right, title and interest of the Corporation in the collection of TSRs previously purchased by the Corporation from the County. This series consists of subordinate turbo capital appreciation bonds that provide long-dated financing for the Corporation and take advantage of current market conditions where interest rates are low, investors have a favorable view of litigation events and where institutional investors are looking for high yield investments. The Corporation is required to covenant not to issue additional bonds or refunding bonds that would extend the term of the capital appreciation bonds or other outstanding bonds.

The Series 2001 Bonds are composed of the following:

\$10,640,000 Tobacco Settlement Asset-Backed Bonds, Series 2001 (Tax Exempt Turbo Bonds), maturity date is June 1, 2027, interest rate of 5.00%-6.00%.

The Series 2005 Trust V Bonds are composed of the following:

\$713,160 Tobacco Settlement Asset-Backed Bonds, Series 2005 S1 (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2038, with an accreted value at maturity of \$3,660,529

\$730,966 Tobacco Settlement Asset-Backed Bonds Series 2005 S2 (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2050, with accretion value at maturity of \$9,928,782

\$649,493 Tobacco Settlement Asset-Backed Bonds, Series 2005 S3 (Tax Exempt Turbo Capital Appreciation Bonds) maturity date is June 1, 2055, with accretion value at maturity of \$16,766,847

\$734,367 Tobacco Settlement Asset-Backed Bonds, Series 2005 S4 (Tax Exempt Turbo Capital Appreciation Bonds) maturity date is June 1, 2060, with accretion value at maturity of \$32,927,090.

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Long-term indebtedness for the Corporation's bonds payable consisted of the following:

	2021	2020
Balance - beginning of year	\$ 8,417,987	\$ 8,777,987
Repayments of bonds	<u>(440,000)</u>	<u>(360,000)</u>
Balance - end of year	7,977,987	8,417,987
Add: Accretion of capital appreciation bonds	4,708,641	4,235,919
Less: Bond discount	<u>(28,509)</u>	<u>(33,260)</u>
Total	<u>\$ 12,658,119</u>	<u>\$ 12,620,646</u>
Super Sinker payments due within one year	<u><u>\$ 1,520,000</u></u>	<u><u>\$ 1,505,000</u></u>

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Principal and interest debt service requirements for required maturities and flexible amortization payments at December 31, 2021 for liquidation of the \$5,150,000 bonds are as follows:

Year Ended December 31	Amortization Assuming Super Sinker Payments		Amortization Assuming No Super Sinker Payments	
	Principal	Interest	Principal	Interest
2022	\$ 1,520,000	\$ 251,027	\$ ---	\$ 289,687
2023	665,000	188,287	---	289,687
2024	700,000	149,317	---	289,687
2025	730,000	108,491	---	289,687
2026	775,000	65,523	---	289,687
2027-31	760,000	21,698	---	1,448,435
2032-36	---	---	1,465,000	1,284,943
2037-41	---	---	2,445,000	728,094
2042-43	---	---	1,240,000	72,450
Total	\$ 5,150,000	\$ 784,343	\$ 5,150,000	\$ 4,982,357

Principal and interest debt service requirements for 2005 Trust V Bonds including accretion based upon required maturities are as follows:

Year Ended	Principal	Interest
2022	\$ ---	\$ 490,127
2023	---	522,579
2024	---	557,190
2025	---	594,106
2026	---	633,481
2027-31	---	3,856,268
2032-36	---	5,318,525
2037-41	1,462,522	6,378,325
2042-46	---	8,569,390
2047-51	1,915,075	10,655,964
2052-56	1,906,201	10,316,239
2057-60	2,252,830	7,947,538
Total	\$ 7,536,628	\$ 55,839,732

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION
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Required maturities for the Series 2001 Bonds represent the Super Sinker (accelerated) amortization payments are required to be made against outstanding principal providing that the Corporation receives sufficient TSRs to make the payments. The interest payment requirements shown are based on the required principal maturity schedule and include the accreted value portion of capital appreciation bonds in the year in which they are required to be redeemed.

Bonds payable as recorded on the Statement of Net Position consist of the following as of December 31, 2021:

	Bond Principal	Bond Discount	Bond Accretion	Total
Beginning balance, 1/1/21	\$ 8,417,987	\$ (33,261)	\$ 4,235,920	\$ 12,620,920
Principal payment	(440,000)			(440,000)
Amortization		4,751		4,751
Accretion			472,722	472,722
Ending balance, 12/31/21	\$ 7,977,987	\$ (28,510)	\$ 4,708,642	\$ 12,658,119

Bonds payable as recorded on the Statement of Net Position consist of the following as of December 31, 2020:

	Bond Principal	Bond Discount	Bond Accretion	Total
Beginning balance, 1/1/20	\$ 8,777,987	\$ (38,012)	\$ 3,792,996	\$ 12,532,971
Principal payment	(360,000)			(360,000)
Amortization		4,751		4,751
Accretion			442,924	4442,924
Ending balance, 12/31/20	\$ 8,417,987	\$ (33,261)	\$ 4,235,920	\$ 12,620,920

Under the terms of the Indenture, the Corporation is required to maintain certain deposits to fund debt service payments, if needed. Such deposits are within deposits with the trustee in the basic financial statements. In addition, the Corporation is subject to various debt covenants, including limitations on expenses/expenditures, and compliance with Indenture agreement requirements. The Corporation was in compliance with all covenants and Indenture agreement requirements at December 31, 2021 and 2020.

There were principal payments of \$440,000 and \$360,000 made during 2021 and 2020, respectively, in accordance with the Series 2001.

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Interest

Interest expense on bonds payable (including bond discount expenses of \$4,751 in 2021 and 2020) was \$782,567 and \$775,643 in 2021 and 2020, respectively. In 2021 and 2020, cash paid for interest was \$307,156 and \$329,656, respectively.

Bond discount expense was \$4,751 for each of the two years ended December 31, 2021 and 2020. Accumulated amortization on bond discount was \$95,028 and \$90,277 for the two years ended.

6. NET POSITION

The Corporation has a deficit in net position of \$10,916,789 and \$10,976,680 of December 31, 2021 and 2020, respectively, as a result of the outstanding bonds. Throughout the life of the bonds, due to the accretion on capital appreciation bonds, the net position deficit will continue to increase. Once sufficient TSRs are collected through the life of these bonds and these outstanding bonds are repaid, the net position deficit will be eliminated.

7. CONTINGENCIES

Future TSRs are subject to adjustment based upon tobacco consumption, inflation and other factors. Pursuant to the Indenture, these adjustments and other events could trigger additional debt service reserve requirements.

8. COVID-19

The United States is presently in the midst of a national health emergency related to virus, commonly known as Coronavirus (COVID-19). The overall consequences of COVID-19 on a national, regional, and local level are unknown, but it has caused a significant economic impact over the last two years. The impact of this situation on the Corporation and its future results and financial position is not presently determinable.



Richard McNeilly CPA

Certified Public Accountant

124 W Franklin Street

Horseheads, New York 14845

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of the
Cortland Tobacco Asset
Securitization Corporation
Cortland, New York

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Cortland Tobacco Asset Securitization Corporation (the Corporation) a blended component unit of the County of Cortland, New York as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued my report thereon dated April 22, 2022.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, I do not express an opinion on the effectiveness of the Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness in internal control is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis by the Corporation's internal control. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

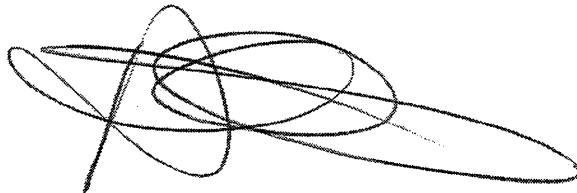
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

April 22, 2022

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end.

Richard McNeilly, CPA